



McInroy & Wood Portfolios

McInroy & Wood Funds Assessment of Value – as at 28th February 2022

CHAIRMAN'S STATEMENT

Dear Investor

We are pleased to provide our Assessment of Value for the McInroy & Wood Portfolios funds for the year ended 28th February 2022.

Through another turbulent year we have continued to focus on providing investors with a meaningful real return over inflation, sticking to our principles of focusing on quality and a long-term view. We have continued to take a prudent view in our risk management, including our asset allocation decisions in our multi-asset Balanced and Income funds.

We have also continued to focus on providing excellent personal service to investors, through whichever channel they choose to invest with us, which we believe is a key differentiator. In the year under review, we also launched our Investor Portal to enhance investors' access to their fund information and established a digital dealing facility; introduced investor webinars; and bedded-in the change of our third-party administrator which resulted in significant cost savings to investors.

We have enhanced this year's report in a number of ways and welcome your feedback. We have included more graphical representation of the performance of your investments compared with inflation over three years together with a table which also shows this comparison over longer timeframes, and we have added graphs on the total cost of investment in your funds compared with their relevant industry peer groups. The latter captures the aggregate of the management charge, other ongoing fund administration costs and the costs of investment transactions, which we think is very relevant information to compare with the investment returns and service you receive. We concluded that each of the McInroy & Wood Portfolios funds continued to provide overall value relative to their costs in the year, having regard to their roles in a diversified portfolio and their minimum recommended holding period of three years.

We are always happy to receive feedback on our service, and on the content and approach taken to this Assessment of Value so, if you have any comments, please do let us know.

Yours sincerely

J R Jesty
Interim Chairman

INTRODUCTION

The McInroy & Wood (MW) funds were originally established to provide an alternative format for the firm's private clients to access its discretionary investment management services on an economic basis. The same investment approach and principles which are employed in managing the MW funds are also employed for discrete segregated private client portfolios.

Professionals, charities and individuals to whom McInroy & Wood's investment approach appeals, but who do not require a discretionary management service, can invest directly in the MW funds while still receiving a very high quality level of service. The MW funds can be held in ISAs and junior ISAs, as well as in personal pension schemes.

An annual assessment of value is required by COLL 6.6.20 of the FCA's (McInroy & Wood's regulator) Handbook to consider whether the payments out of each fund's scheme property are justified in the context of delivering overall value to unitholders. The FCA requires McInroy & Wood to consider seven key areas, as noted below, when undertaking this Assessment of Value.

The Authorised Fund Manager (the "Manager"), McInroy & Wood Portfolios Limited ("MWPL") has carried out this assessment in consultation with its parent company and Investment Adviser to the funds, McInroy & Wood Limited ("MWL"). The Manager had previously allocated responsibility for ensuring compliance with the requirement to conduct this annual assessment to Simon Fraser, its independent non-executive Chairman. Simon very sadly died unexpectedly, in August 2021. The responsibility to comply with the requirement to conduct this assessment has been vested in MWP's interim Chairman and independent non-executive director, Jonathan Jesty.

CONSIDERATION & FINDINGS

The MWPL Board has considered data and other information available throughout the year as well as information prepared specifically in connection with this assessment.

1) *Quality of service*

The Manager has assessed the quality of both the services it provides directly, and services where it has been responsible for appointing third parties, including transfer agency, custody and depositary services, fund pricing and accounting and audit. Dedicated teams undertake all the administration for the unit trusts managed by the Manager. These teams work flexibly and do not provide ring-fenced resource to a particular fund. This structure ensures the highest possible level of service to all unitholders, and was demonstrably successful throughout the COVID-19 pandemic period in ensuring service levels were maintained at all times for all unitholders.

Quality of service is one of the Manager's key differentiators. Investors have access to both a dedicated investment team and to a dedicated administrative team. This approach results in a highly personalised service that is available to all unitholders. Queries are normally dealt with on the day they are received. There were only two complaints from investors during the year. Over the past year there were 505 security trades placed on behalf of the funds by the Investment Adviser with an error rate of 0%. Over the same period there were 16,813 unit deals placed with an error rate of 0.1% (or 12 errors).

a) Administrative communications and investor interaction

MWL directly employs the staff who are responsible for managing communications with individual retail investors on behalf of MWP, and it does not outsource this activity to any external parties. Their activities include communicating by telephone calls and correspondence with investors, in addition to oversight of the production of written investor communications and providing help in rectifying any issues. Our team also applies rigorous oversight to the work done by third parties. We aim to identify any errors made by them, so that these can be rectified before they reach the investor.

The investment which the Manager has made in administrative staff, key suppliers and systems has contributed to a very low level of complaints. It has also resulted in resilient systems that have supported investors throughout the COVID-19 pandemic, without any system outages.

An online investor service was implemented in March 2021 for those investors who prefer to invest and manage their investment online. Dealing facilities are therefore provided online, via platforms, post or over the phone and our service is available to investors in the form in which they wish to take it.

Semi-annual statements are sent or made available to registered unitholders around 3 weeks after the 5th April and 5th October, including a summary of the investment outlook.

We provide access to JISA and ISA facilities to investors at no extra cost, and provide regular savings and income schemes in the funds.

b) Access to the fund managers and investment process

MWL's investment managers, who are responsible for the investment management of the funds on behalf of the Investment Adviser, are available to talk directly with investors. They can answer any investment questions relating to the funds' objectives, their investment strategy and how they are being managed. This level of access is unusual for retail investors and is a service which can add greatly to investors' understanding of the funds in which they invest.

This access has been extended in the last year, where fund managers and senior members of the Investment Adviser's investment team have held live investment webinars and undertaken podcasts.

The Manager has oversight of the Investment Adviser's investment process, which it considers to be robust and disciplined. The investment process has delivered the performance to investors necessary to meet the Balanced Fund, Income Fund, HTT Fund and Smaller Companies Funds' objectives (as detailed in section 2), while limiting risk to acceptable levels.

Over the 3-year and 5-year periods to 28th February, the Emerging Markets Fund has just missed its objective to grow the real value of investors' capital and income. The value of developing market equities in general has fallen sharply over the last 12 months, affecting the fund's performance. However, we believe that the Investment Adviser's investment process remains robust, and that the stocks held in the fund offer the prospect of real growth in the future.

The Investment Adviser's investment team is highly qualified and experienced, consisting of CFA[®] Charterholders, Chartered Accountants and holders of the MCSI with an average investment career spanning 20 years.

c) Benefits from being a subsidiary of a discretionary private client manager

The Manager's associate, MWL, in its capacity as an independent private client discretionary investment management firm, significantly assists the Manager in understanding the needs of fund investors and the services which they require. The same level of attention to detail that is provided to private clients is also applied for the benefit of investors in the funds.

d) Genuinely putting investors' best interests first

Prior to 2016, the Manager proactively moved investors from what was a more expensive 'Legacy' unit class to the less expensive 'Personal' unit class, years in advance of the regulatory requirement to do so. When the Legacy class was closed, the few remaining unitholders who had not responded to our communications were converted to the lower fee unit class. Taking such action was detrimental to the firm's revenue in the short term, as it resulted in investors paying a lower level of fees, but it was in investors' interests to do so. This example typified the firm's approach of putting investors' needs first. The firm is also completely transparent about its fees. Although not a regulatory requirement, the Manager includes the underlying cost of the gold funds (which are structured as debt securities) in which it invests on behalf of investors within its ongoing charges figure (OCF). This may put the fund at a disadvantage when comparing its fees to others, but it is right that investors should understand the true cost of their investment within the funds. The firm also uses its own capital, at no cost to investors, to reduce bank transaction charges for all funds.

The Manager proactively sought recoveries of overseas withholding tax in respect of France, Switzerland and Indian securities, and received cash during the year. While the relevant funds bore the professional fees incurred by accountants during the recovery process, no charge was made by the AFM for the significant time and resource required to submit the claims.

e) Fund provision based upon need rather than producing products to be marketed

The Manager has never designed funds as products to be marketed. It provides a limited range of funds primarily based upon the needs of its associate's private clients. While these funds have broad appeal to a wide variety of investors, the firm must ensure that it is providing a high level of service and value across all the funds which it manages. The funds are all considered to be important to the firm on an ongoing basis as it is not launching a stream of new products supported by intensive marketing activity. The firm does not actively market its existing funds but relies on its reputation and word of mouth for new business. It is therefore incumbent upon the firm to ensure that existing investors are properly looked after, and that in itself leads to a high level of service.

f) The MWPL Board actively reviews the service provided to unitholders on a quarterly basis.

Conclusion:

The quality of service provided by the firm continues to be high.

Actions Proposed:

The Manager will work to continue to improve its level of service to meet the needs of investors.

The Investment Adviser will make further webinar presentations to investors to give them more opportunities to engage with the Manager and Investment Adviser. In addition, the Investment Adviser will post occasional podcasts for those that want to understand important investment topics and how the portfolios are being managed accordingly.

2) *Performance*

The Investment Adviser's rigorous investment approach aims to identify and hold equity investments for the long-term. The average holding period of equities in the Balanced Fund is 10 years, Income Fund and Smaller Companies Fund is 8 years, while it is around 7 years in the Emerging Markets Fund and HTT Fund. The Investment Adviser's equity investment approach emphasises financially strong and profitable companies that should stand the test of time. Other assets such as bonds, gold (via physically backed debt securities) and cash may be held, where relevant to each fund, and are designed to protect investors when equity markets are weak. The Manager has considered, when reviewing the performance of the funds, the risks that have been taken in achieving returns.

McInroy & Wood's investment approach aims to achieve for investors the best total return consistent with limiting risk through asset diversification (holding a mix of equities, bonds, gold and cash) in the Balanced Fund, Income Fund and HTT Fund and security diversification across all funds. The risk of loss posed by individual securities is also carefully considered. The assessment of risk is fundamental to the Investment Adviser's investment work. Accordingly, the Investment Adviser believes that its efforts cannot simply be judged by a pure comparison with any benchmark without considering what risks it has been prepared to accept. McInroy & Wood states clearly that it has an overriding aim to limit the risk of loss consistent with investors' objectives. The Investment Adviser believes that it is misleading to suggest that, because the price of a security might historically be less volatile than another that, in future, in the context of a 3-5 year horizon and a well-diversified portfolio, it is less likely to occasion a loss. The Manager does not subscribe to any statistical definition of risk. The risk of loss should only be related to the portfolio as a whole. The Manager does not consider that any single asset, whether cash deposit, government security or any other in itself represents a risk-free investment in real terms. The firm regards a carefully constructed portfolio consisting of a spread of assets and/or securities as being the only way to limit overall risk. This requirement for diversification will always take priority in the Investment Adviser's stewardship of portfolios rather than the simple need to beat a specific benchmark, and its efforts should be viewed in that context.

Security markets were volatile over the course of the twelve months to 28th February. When considering the recommended minimum investment horizon of three years, the respective investment strategies of the funds helped preserve fund assets.

Investment in the Manager's funds is aimed at those investors with a medium to long-term investment horizon, i.e. those with a minimum time horizon of three years, but more typically of five years or longer. The Manager considered the net (of fees and all other costs) total return (capital appreciation/depreciation plus the reinvestment of any income received) of each fund in relation to its investment objective. The first table below shows the total returns for 3, 5, 10 years, and since each fund's inception, while the second table shows the annualised returns for each period.

Environmental, Social and Governance ("ESG") considerations are integral to the Investment Adviser's investment process. Investment in companies involved in the manufacture of arms and tobacco has always been avoided. The Investment Adviser engages actively with investee companies, focusing on areas where it can make a real difference rather than treating it as a 'box-ticking' exercise. The Investment Adviser is small compared to many of its competitors, but size does not act as an impediment in making a tangible impact in stewardship. Additionally, the Investment Adviser is a member of the Investor Forum and the Institutional Investor Group on Climate Change, which provide effective channels for collective engagement, as well as forums for dialogue between investors and corporates on governance, and long-term stewardship issues. The subjects on which the Investment Adviser has engaged recently include climate change transition strategies, marine plastic pollution and Russian operations.

Performance of all funds managed by the Manager

Total Return, net of all fees, to 28/02/22	<u>MW</u> <u>Balanced</u> <u>Fund</u> <u>%</u>	<u>MW</u> <u>Income</u> <u>Fund</u> <u>%</u>	<u>MW</u> <u>Smaller</u> <u>Companies</u> <u>Fund %</u>	<u>MW</u> <u>Emerging</u> <u>Markets</u> <u>Fund %</u>	<u>MW</u> <u>HTT</u> <u>Fund</u> <u>%</u>	<u>UK</u> <u>RPI %</u>	<u>Euro</u> <u>CPI %</u>
3 years	29%	23%	30%	12%	24%	12%	8%
5 years	35%	23%	54%	19%	26%	19%	11%
10 years	108%	78%	186%	63%	96%	34%	16%
Inception	1096%	596%	831%	200%	316%	-	-
Inflation since inception	168%	125%	86%	58%	38%	-	-

Annualised Total Return, net of all fees, to 28/02/22	<u>MW</u> <u>Balanced</u> <u>Fund</u> <u>%</u>	<u>MW</u> <u>Income</u> <u>Fund</u> <u>%</u>	<u>MW</u> <u>Smaller</u> <u>Companies</u> <u>Fund %</u>	<u>MW</u> <u>Emerging</u> <u>Markets</u> <u>Fund %</u>	<u>MW</u> <u>HTT</u> <u>Fund</u> <u>%</u>	<u>UK</u> <u>RPI %</u>	<u>Euro</u> <u>CPI %</u>
3 years	8.7%	7.0%	9.2%	3.9%	7.5%	4.0%	2.6%
5 years	6.2%	4.3%	9.0%	3.5%	4.7%	3.6%	2.1%
10 years	7.6%	5.9%	11.1%	5.0%	7.0%	2.9%	1.5%
Inception	8.1%	7.2%	11.2%	7.6%	8.0%	-	-
Inflation since inception	3.1%	2.9%	3.0%	3.1%	1.7%	-	-

Source: McInroy
& Wood &
Bloomberg

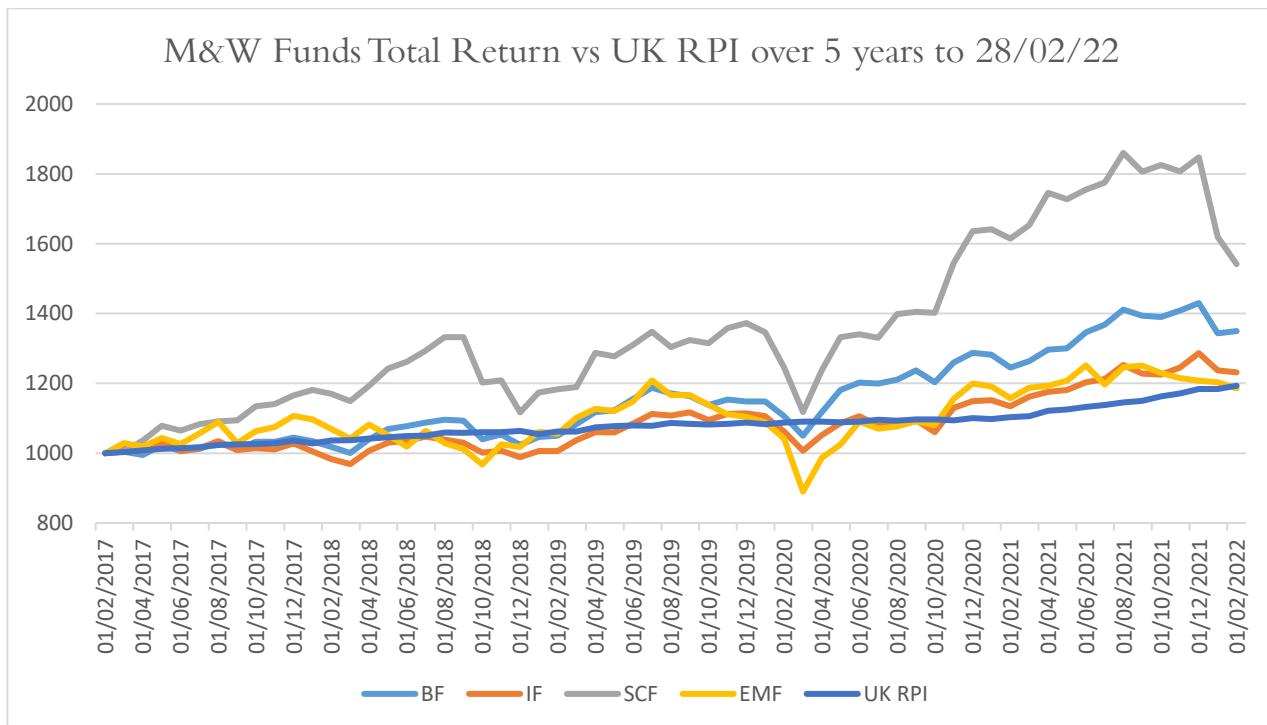
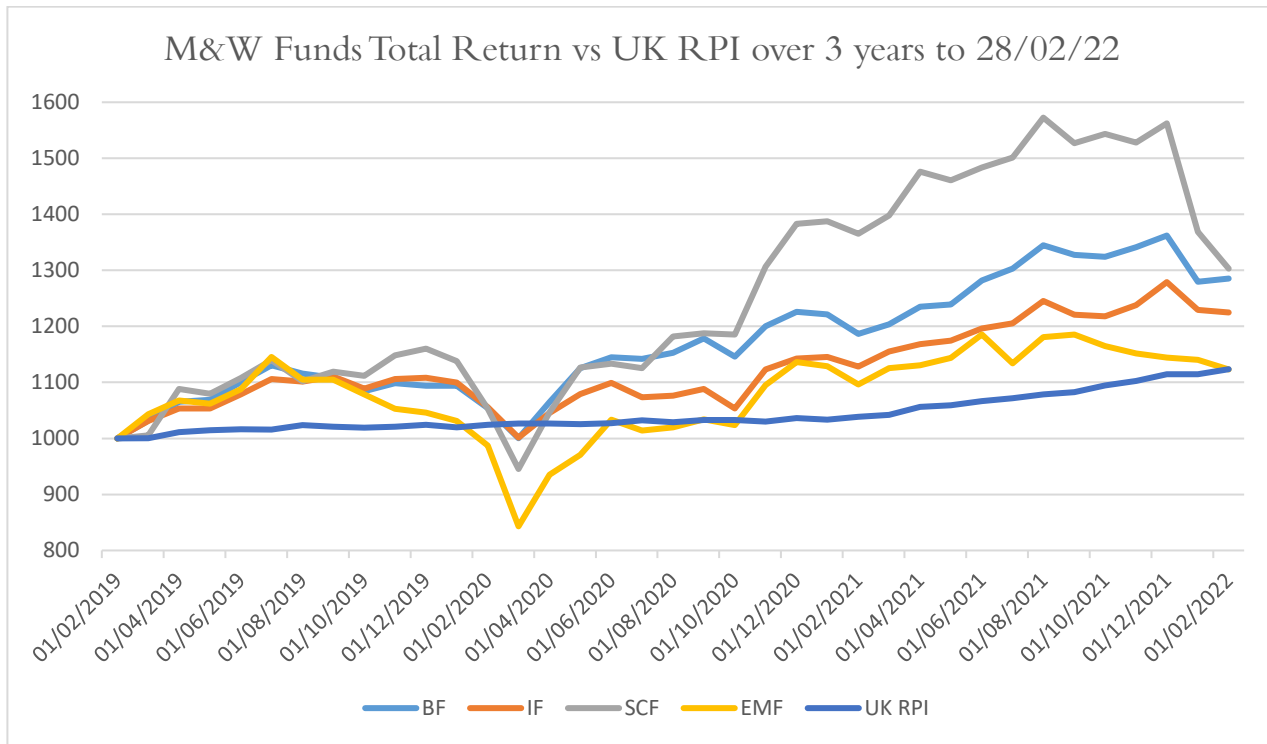
Maximum Drawdown and Run up per fund for year to 28th February 2022

The maximum drawdown is the peak-to-trough decline in the unit price during a period, while a run up is the trough-to-peak increase. Both are quoted as the percentage between the initial peak/trough and the subsequent trough/peak.

Year to 28 th February 2022	Maximum Drawdown	Maximum Run Up
MW Balanced Fund	-9%	+17%
MW Income Fund	-6%	+12%
MW Smaller Companies Fund	-21%	+19%
MW Emerging Markets Fund	-9%	+10%
MW HTT Fund	-7%	+17%
MSCI All Country World Index (£)	-10%	+16%
FTSE All-Share Index	-7%	+16%

The performance and, where appropriate, volatility of each fund is noted separately below.

Total Returns for all funds over 3 & 5 years (£1000 invested):



McInroy & Wood Balanced Fund

Investment Objective:

The investment objective of the MW Balanced Fund is to maximise the total return to unitholders, by preserving and growing the real value of investors' capital and income, placing an equal emphasis on the generation of income and on capital growth. Real value is defined as the value of capital and income after adjusting for the impact of inflation. The UK Retail Price Index (RPI) is the measure of inflation used by the Manager. The investment should be held for a minimum period of 3 years. Total return is defined as capital appreciation, if any, plus income received, and does not imply that a positive return will be consistently achieved over this or any other time period.

Performance:

The MW Balanced Fund achieved an annualised real total return, over and above UK RPI, of 5.0% per year since inception, 4.7% per year over 10 years, 2.6% per year over 5 years and 4.7% per year over 3 years.

Conclusion:

The fund has not only preserved but grown the combined real value of investors' capital and income by more than UK RPI over the short (3 years), medium (5 years) and long term (10 years), while taking a limited amount of risk. It has therefore met its investment objective.

McInroy & Wood Income Fund

Investment Objective:

The investment objective of the MW Income Fund is to preserve and to grow the real value of investors' capital and income, with an emphasis on the generation of income. Real value is defined as the value of capital and income after adjusting for the impact of inflation. The UK Retail Price Index is the measure of inflation used by the Manager. The investment should be held for a minimum period of 3 years.

Performance:

The MW Income Fund achieved an annualised real total return, over and above UK RPI, of 4.3% per year since inception, 3.0% per year over 10 years, 0.7% per year over 5 years and 3.0% per year over 3 years. The recent performance of the fund reflects the broad recovery in the level of company dividends, as well as the strategic decision taken in 2021 to increase the fund's international exposure, particularly to companies offering attractive dividend and capital growth prospects.

Conclusion:

The fund has grown the combined real value of investors' capital and income by more than UK RPI over the short, medium and long term, while taking a limited amount of risk. It has therefore met its investment objective.

McInroy & Wood Smaller Companies Fund

Investment Objective:

The investment objective of the MW Smaller Companies Fund is to grow the real value of investors' capital and income. Investments will be in global smaller companies, which do not form part of the leading market indices. An equal emphasis will be placed on the generation of income and on capital growth. Real value is defined as the value

of capital and income after adjusting for the impact of inflation. The UK Retail Price Index is the measure of inflation used by the Manager. The investment should be held for a minimum period of 3 years.

Performance:

The MW Smaller Companies Fund achieved an annualised real total return, over and above UK RPI, of 8.2% per year since inception, 8.2% per year over 10 years, 5.4% per year over 5 years and 5.2% per year over 3 years. It is worth noting that the last year has been a particularly volatile one for the fund, where the unit price fell by 5%. This masks a maximum drawdown of 21% during the course of the year. Inflation and interest rate expectations rose considerably, an economic environment to which smaller companies are especially susceptible. However, the long-term prospects of the investments within the fund remain strong, and the Investment Adviser remains confident that it will continue to provide good long-term returns to investors.

Conclusion:

The fund has not only preserved but grown the combined real value of investors' capital and income by more than UK RPI over the short, medium and long term. It has therefore met its investment objective.

McInroy & Wood Emerging Markets Fund

Investment Objective:

The investment objective of the MW Emerging Markets Fund is to grow the real value of investors' capital and income. Investments will be in companies operating or incorporated in Emerging Markets. An equal emphasis will be placed on the generation of income and on capital growth. Real value is defined as the value of capital and income after adjusting for the impact of inflation. The UK Retail Price Index is the measure of inflation used by the Manager. The investment should be held for a minimum period of 3 years.

Performance:

The MW Emerging Markets Fund achieved an annualised real total return, over and above UK RPI, of 4.5% per year since inception and 2.1% per year over 10 years. Over both 3 and 5 year periods, the fund returned just less (-0.1%) per year than UK RPI. While the capital growth of the fund has substantially preserved its real value when compared to UK RPI, it has failed to grow in excess of it. In the last year, emerging markets were badly affected by rising inflation and interest rate expectations, particularly high growth technology stocks, to which the fund has limited exposure. It has held up well against wider market falls over 12 months, and remains well positioned to take long-term advantage of the growing wealth of consumers in the developing economies.

Conclusion:

The fund has grown the real value of investors' capital and income by more than UK RPI over the long term and met its investment objective. Over the short and medium term it has just failed to meet its investment objective. While investors' capital has broadly kept up with inflation (UK RPI) in the short-term, it has not provided returns in excess of inflation i.e. it hasn't improved investors' purchasing power over 3 or 5 years. However, the longer-term investment case for investing in developing economies and the companies therein continues to offer good opportunities, through trying to take advantage of the growing wealth of consumers and the middle class in these countries, and their favourable demographics. Globalisation of trade and the provision of services and goods, combined with a low interest rate environment, have been beneficial to emerging markets over the last decade. Covid, recent political worries and increasing inflation, have started to reverse these trends. Whether those trends are temporary or more permanent remains to be seen, but trade both within individual emerging market countries, and between emerging economies is expected to continue to increase, supporting the longer-term investment case. The Board will continue to closely monitor the fund's progress, and its continuing relevance to investors.

McInroy & Wood HTT Fund

Investment Objective:

The investment objective of the MW HTT Fund is to maximise the total return to unitholders, by preserving and growing the real value of investors' capital and income, placing an equal emphasis on the generation of income and on capital growth. Real value is defined as the value of capital and income after adjusting for the impact of inflation. The Eurozone Consumer Price Index (CPI), (the Harmonised Index of Consumer Prices) is the measure of inflation used by the Manager. The investment should be held for a minimum period of 3 years. Total return is defined as capital appreciation, if any, plus income received, and does not imply that a positive return will be consistently achieved over this or any other time period.

The fund is priced in Euros.

Performance:

The MW HTT Fund achieved an annualised real total return, over and above Euro CPI, of 6.3% per year since inception, 5.5% per year over 10 years, 2.6% per year over 5 years and 4.9% per year over 3 years.

Conclusion:

The fund has not only preserved but grown the real value of investors' capital and income by more than Euro CPI over the short, medium and long term. It has therefore met its investment objective.

3) Authorised Fund Manager (AFM) Costs

The main component of the Ongoing Charges Figure (OCF) is the Annual Management Charge (AMC) charged by the Manager. The MW group does not delegate its investment responsibilities to any third party and takes responsibility for investing directly around the world. To do so requires an experienced and well-resourced team, that can ultimately control the underlying investment exposures while keeping down the total cost of investment. MWL's investment team operates on a collegiate basis. All investment managers and analysts are involved in the selection and monitoring of all securities across all of the Manager's funds. It is therefore inappropriate to consider the investment team's cost per individual fund as they are all required to manage each fund.

The Manager has considered its (and its associate Investment Adviser MWL's) other underlying costs in aggregate and as they might relate to each fund in relation to this charge as the Board considers that this is the most appropriate basis given its business and accounting structure. They reflect both the resources required to deliver our direct, active investment approach and the high level of personal service. MWL absorbs all research costs, including the substantive cost of buying in external research. The costs also reflect the group's internal operational, administrative and regulatory costs and the cost of retaining our talented staff. The ongoing provision of a personal service and the Investment Adviser's consistent investment management approach is dependent upon the retention of its existing staff and its ability to attract additional talented individuals as required.

In addition to providing reasonable remuneration to its employees, the firm aims to align the long-term interests of its clients and investors with its directors and other senior staff. These employees are encouraged to purchase shares in McInroy & Wood. Share ownership ensures a longer-term perspective when contributing to the firm's efforts, where benefit is only gained from the firm's collective success in looking after its clients and investors. The firm has historically relied on the goodwill of its existing clients and investors to grow, and only through the continued provision of a high-quality service and success in meeting their investment objectives will it continue to do so.

The Manager has been successful in continuing to grow the value of assets managed through both organic growth and increased market value. Costs have increased proportionately with revenue, as a result of undertaking significant mandatory regulatory and legislative change projects and other internal projects to benefit unitholders. There are

further signs of significant inflationary increases coming from professional insurance, regulatory levies and other third-party costs (such as IT provision) which will put downward pressure on margins in the absence of further growth. In addition, employer national insurance contributions rose by 1.25% in April 2022, and corporation tax rates will increase from 19% to 25% in 2023, reducing net profit margins further.

The group is committed to remaining a well-capitalised business which can provide security to unitholders during both good times and difficult periods. It has always managed its affairs in a conservative manner and has consistently reinvested in the business over many years in order to provide the highest quality service to unitholders.

The other components of the OCF are the external operating costs of the funds, which have generally fallen in the past three years. The Manager negotiates proactively on behalf of investors with auditors, trustees, depositaries etc. to ensure that they are receiving value for money within each fund. Examples are brokerage costs (reviewed annually and last renegotiated in August 2019), custody fees (last renegotiated in June 2019), change of transfer agent (November 2020) and an audit tendering process (November 2021). All charges payable from the property of the fund are reviewed periodically against comparable market rates and have been found to be reasonable and competitive. The Manager will not hesitate to make further changes to the external parties who provide services to the funds if value for money is not being provided. The costs of making such changes are not borne by the investor. The change of transfer agent followed an extensive market review of the cost effectiveness and service model provided by the previous incumbent. Unitholders benefited from a reduction in transfer agency charges (approx. two basis points per fund from February 2021 to February 2022).

The Investment Adviser deals at institutional market rates in each security market in which the fund invests. It should be noted that neither the Investment Adviser nor the Manager receives any income as a result of dealing activity.

The Manager ceased charging its ISA administration fee in March 2021.

Conclusion:

The Manager's charges provide value for money for the level and quality of service provided given the firm's scale and global remit. Operating costs, primarily linked to inflationary increases in the AFM's cost base and increasing taxation, are expected to lead to a deterioration in the firm's margins in future years.

Action Proposed:

The Manager will continue to monitor closely all costs borne by investors and continue to pursue opportunities to reduce costs.

4) *Economies of scale*

The firm has consistently grown the value of assets managed by it since 2010. It has always been conservatively managed, and significant resource has been regularly reinvested back into the business for the benefit of unitholders, and to meet regulatory and legislative requirements.

As noted in Section 1(d), the Manager took the decision in 2013 to create a new unit class ('Personal') with a lower AMC of 1%. This decision was only financially feasible by virtue of the economies of scale gained by the firm over many years. Although not a regulatory requirement at the time, it was felt that the firm was in a position to make this change as assets being managed had grown significantly over prior years, and that it was fair and reasonable that some of this growth should benefit unitholders.

The Manager is responsible for a limited number of unit trusts. Where possible, cost savings have been negotiated with third parties on a group-wide basis to gain the maximum economies of scale. These savings are passed on to

unitholders on a pro-rata basis. Tiered fees, reflecting economies of scale, have been agreed within transfer agency, trustee, fund pricing and accounting services.

The AMC is a flat ad valorem (% of assets managed within each fund) rate for each fund, aligning the interests of unitholders and the Manager. Company policy ensures that unitholders cannot access the Manager's funds more cheaply than if they come directly to the Manager.

As set out above in relation to AFM costs, it is inappropriate to consider the investment team's cost per individual fund as they are all required to manage each fund. Likewise, the trustee and depositary, custody fees and transfer agency fees are negotiated collectively for all the Manager's funds as all unitholders in all funds benefit from the total value of assets under the Manager's administration.

While profit margins have increased since 2010, they have been relatively unchanged over the last four years. Despite the firm's growth in more recent years, costs have also been rising commensurately. Margins have remained flat as costs have increased proportionately, as a result of undertaking significant mandatory regulatory and legislative change projects and other internal projects to benefit unitholders. Significant inflationary increases are now coming from wage inflation, professional insurance, regulatory levies and other third-party costs (such as IT provision).

The Investment Adviser has always been managed on a conservative basis and usually increases its capital reserves on an annual basis.

Conclusion:

The Manager believes that unitholders are currently benefitting from the economies of scale afforded to the firm in relation to the firm's size. Those benefits remain strongest when the firm uses its overall bargaining power which benefits all funds, rather than trying to apply economies of scale per fund. While it is acknowledged that the firm has experienced economies of scale when the value of assets it is managing have been growing faster than directly attributable costs, the firm's margins are likely to come under pressure in the coming years due to increases in fixed overhead costs and taxes. The Manager is not therefore considering reducing fees at this point in time.

Action Proposed:

The Manager will conduct an annual review to consider whether it is appropriate to pass any further economies of scale on to investors.

5) **Comparable market rates**

The Manager has compared costs charged by the funds which it manages with those charged by peer group funds, i.e. those with similar investment objectives, active management styles, and comparable sizes.

Investor Share Type: Retail	AMC Median	AMC Average	OCF Median	OCF Average	OCF excl AMC
IA Mixed Investment 40-85% Shares Sector	0.73	0.66	0.98	1.02	0.25
		AMC		OCF	OCF excl AMC
MW Balanced Fund		1.00		1.10	0.10
MW Income Fund		1.00		1.12	0.12
MW HTT Fund ^{Note 1}		0.85		0.99	

Investor Share Type: Retail	AMC Median	AMC Average	OCF Median	OCF Average	OCF excl AMC
IA Global Sector	0.75	0.72	0.90	0.93	0.15
		AMC		OCF	OCF excl AMC
MW Smaller Companies Fund		1.00		1.12	0.12

Investor Share Type: Retail	AMC Median	AMC Average	OCF Median	OCF Average	OCF excl AMC
IA Global Emerging Markets Sector	0.80	0.81	1.02	1.04	0.22
		AMC		OCF	OCF excl AMC
MW Emerging Markets Fund ^{Note 2}		1.00		1.24	0.24

Source: Morningstar & MWPL

Notes

1. The MW HTT Fund is a dedicated, euro-denominated, fund created for a very limited number of investors. It has a higher initial investment threshold and very low unit dealing volumes.
2. The custody and tax costs of investing in emerging markets are higher than those in developed markets, leading to higher third party charges in the MW Emerging Markets Fund.

It can be seen that the Manager's AMC is higher than the median AMC of the funds' peer groups. The Manager feels that this reflects the firm's transparent single fee structure, its operating model and the level of service provided. The sectors to which each of the funds belong include both passively (index-tracking) and actively managed funds.

The Manager has also compared the external operating costs of the funds (OCF excluding AMC). We believe its strong focus on monitoring the value offered by external service providers has resulted in costs associated with these being lower than the median of the funds' peer groups for all but one fund. It should also be noted that other Managers sometimes include their administrative fees within the OCF, outwith the AMC. In the interests of transparency, the Manager does not do this and includes its own administrative costs within the AMC.

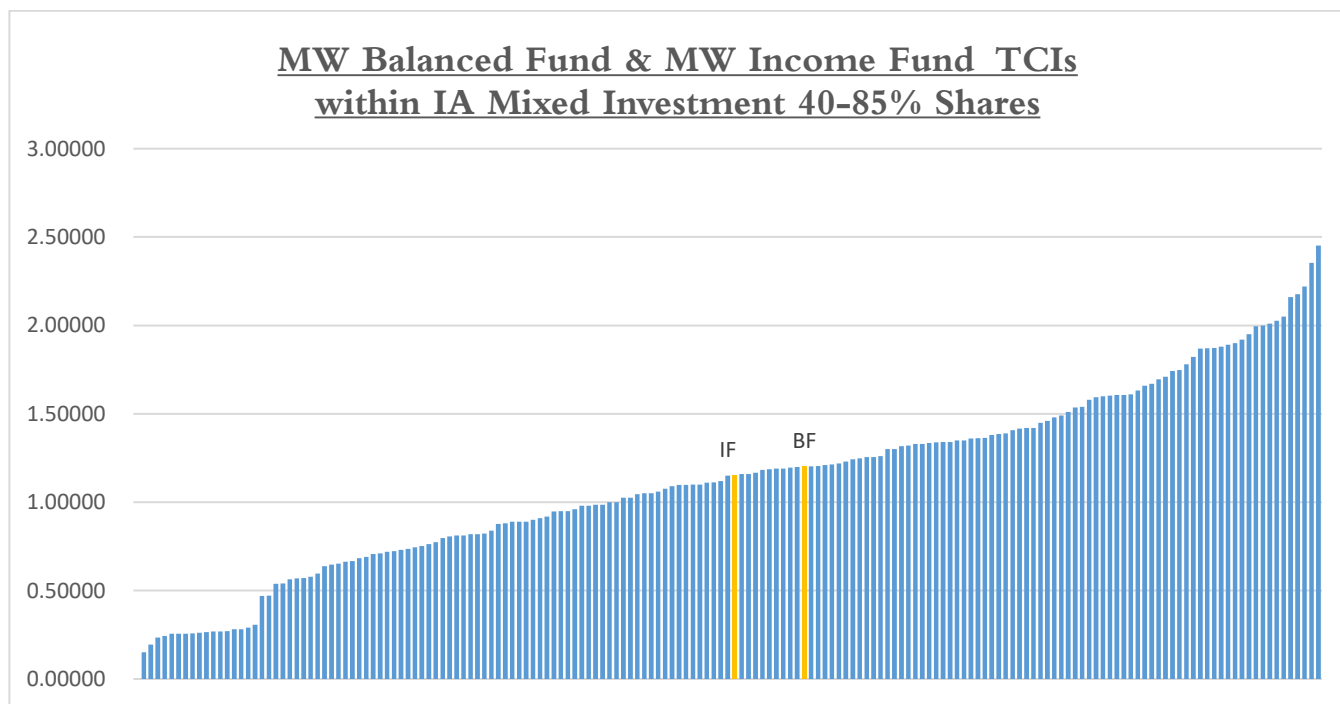
Given the varying fee structures used by different firms in the industry, the OCF (of which the AMC forms the largest part) is the most commonly used basis for cost comparison, as it is calculated consistently across the industry as required by regulation. The overall costs of operating the fund, measured by the OCF, are higher than the average of their peer group in the case of four of the five funds by between 0.08% and 0.20%. We consider this small premium reasonable in the light of the high level of individual service provided.

Total Costs of Investment (TCI) for M&W Funds within each relevant IA sector

It is important for investors to compare the total cost of any investment in a fund with similar funds. The total cost of investment includes all trading costs (including local taxes such as Stamp Duty in the UK), in addition to the costs noted above in the table of Ongoing Charges Figures (OCF).

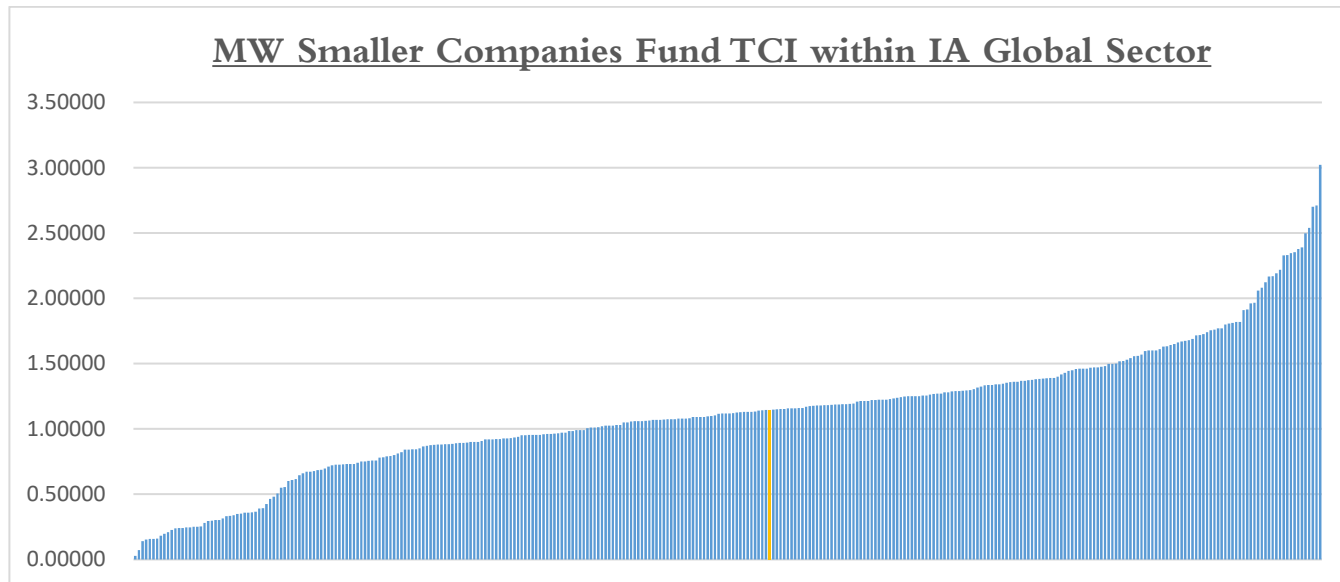
The quoted ‘OCF’ figures do not include transaction costs, as their calculation specifically excludes them. The funds have historically had low turnover, reducing the transaction costs within each fund. When the total cost of investment (OCF plus transaction costs) is considered, then the competitiveness of the funds’ costs becomes more apparent.

The following graph demonstrates that the **Balanced Fund** (1.15%) and the **Income Fund** (1.20%), are near the average of 1.13% in its nominated sector (IA Mixed Investment 40–85% Shares). If passive funds are excluded, then the average of the sector is 1.23% (ie the average of actively managed funds is higher.)



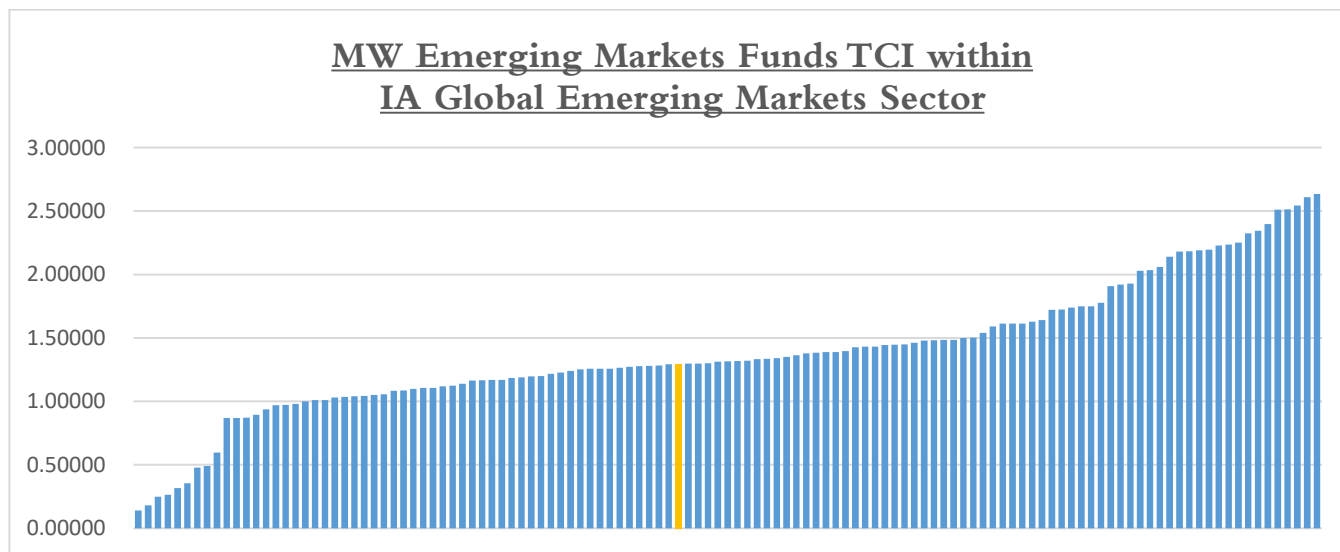
On the basis of the total cost of investment, the Balanced Fund and Income Fund can be considered competitive and offering value.

The **Smaller Companies Fund** is placed within the IA Global Sector. Its TCI is 1.15%, compared to the sector average of 1.13%. Again, if passive funds are excluded in the comparison, the average is 1.23%.



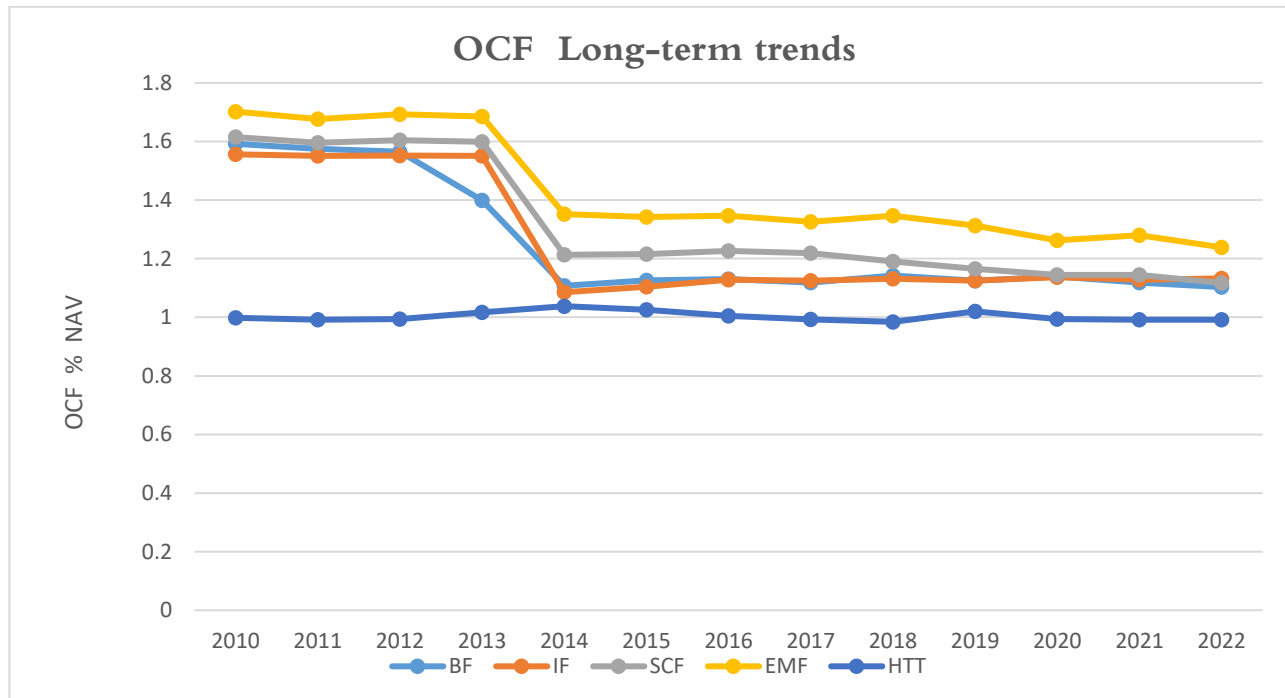
On the basis of the total cost of investment, the Smaller Companies Fund can be considered competitive and offering value.

The **Emerging Markets Fund** is placed in the IA Global Emerging Markets Sector. Its TCI is 1.30%, compared to a sector average of 1.39%. If passive funds are excluded, the average is 1.46%.



On the basis of the total cost of investment, the Emerging Markets Fund can be considered competitive and offering value.

The funds have never charged entry, exit or performance fees. Over a ten-year period, the funds' OCF percentage rates show a reduction, resulting from the growth in the funds' assets under management.



Conclusion:

The Manager's OCFs for four of its funds are slightly higher than the average of OCFs of peer group funds, but this premium is considered reasonable given the level of service provided. Therefore, we believe that no action is required. The MW HTT Fund's OCF is slightly below that of similar funds.

The total cost of investment versus comparable funds also shows that the funds offer value to investors.

6) Comparable services

The Manager has compared its associate MWL's investment charge for a private client discretionary investment portfolio (with a similar investment objective to the fund) with the AMC levied by the fund. This information has been published for many years on McNroy & Wood's website. Discretionary clients of the firm have their assets managed on either a pooled basis, utilising the Manager's funds, or as a segregated portfolio of individual stocks where those funds are not suitable.

The Manager's funds were originally designed for use in portfolios within the MWL's discretionary investment management service and remain widely used in that context. Where the Manager's funds are utilised within discretionary managed portfolios, those clients pay a discretionary investment management fee of 0.2% (plus VAT), in addition to the fund charges, for the additional personal services provided, such as suitability, quarterly reporting and a capital gains tax service. The pure investment cost to a discretionary client and an investor who is buying units in the funds on an execution-only basis is therefore identical i.e. the AMC of the fund.

The Investment Adviser, MWL, also provides portfolios on a segregated basis, where the standard investment management fee is 1% (plus VAT) i.e. 1.2%. The investment management fee is therefore normally the same as that of the funds, but it is acknowledged that the constitutional safeguards of the funds (the trust structure, formal auditing

requirement, daily pricing etc.) do result in additional costs, as noted in the OCF, that make the Manager's funds more expensive than that of a segregated portfolio by the amount of those external costs. That said, the Manager's funds can invest directly in some markets that are not readily available to segregated portfolios, particularly in emerging markets.

MWL does not provide services to large institutional clients, and therefore does not offer institutional fee rates for the same or comparable mandates. In some instances, a discretionary client's investment mandate is similar to that of the Balanced Fund or Income Fund. The investment fees charged to individual unitholders, who deal directly with firm, are broadly comparable to those charged for private clients of commensurate size. The Manager's policy for investors is that no investor can access the Manager's funds more cheaply than if they come directly to the Manager.

Conclusion:

The costs for the same investment services supplied by the group to its discretionary clients are similar to the investment costs for execution-only investors in the funds.

7) *Classes of Units*

The fund has a single unit class, so no assessment is required on this criterion.

Wherever possible the Manager seeks simplicity in its fund structures. In 2013 a new class of units was introduced with an AMC 0.5% below the existing unit class. The Manager proactively encouraged non-advised unitholders to convert to this lower cost unit class, and in 2016 terminated the more expensive legacy class. The Manager has always aimed to provide simple and clear investment options to investors. This approach includes ensuring that there are not too many unit classes, which can be confusing.

Conclusion:

There is only one unit class.

OVERALL CONCLUSIONS

MW Balanced Fund

The Manager has concluded that payments out of scheme property set out in the Prospectus are justified and appropriate in the context of the overall value provided to unitholders.

MW Income Fund

The Manager has concluded that payments out of scheme property set out in the Prospectus are justified and appropriate in the context of the overall value provided to unitholders.

MW Smaller Companies Fund

The Manager has concluded that payments out of scheme property set out in the Prospectus are justified and appropriate in the context of the overall value provided to unitholders.

MW Emerging Markets Fund

The Manager has concluded that payments out of scheme property set out in the Prospectus are justified and appropriate in the context of the overall value provided to unitholders. It is acknowledged that short and medium-term performance has resulted in the fund just missing its investment objective to grow the real value of investments, and this is being closely monitored on an ongoing basis by the Board.

MW HTT Fund

The Manager has concluded that payments out of scheme property set out in the Prospectus are justified and appropriate in the context of the overall value provided to unitholders.

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